

**GRATTAN ACADEMY**  
**REPORT ON FINANCIAL STATEMENTS**  
**(with required supplementary and additional information)**  
**YEAR ENDED JUNE 30, 2006**

# CONTENTS

## Page

<b>Independent auditors' report</b> .....	iii - iv
---	----------

<b>Management's Discussion and Analysis</b> .....	v - x
---	-------

### **Basic financial statements**

#### Government-wide financial statements

Statement of net assets .....	1
-------------------------------	---

Statement of activities .....	2
-------------------------------	---

#### Fund financial statements

Balance sheet - governmental funds .....	3
--	---

Statement of revenues, expenditures and changes in fund balance - governmental funds.....	4
--	---

Reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental fund to the statement of activities .....	5
---	---

#### Fiduciary funds

Statement of fiduciary assets and liabilities .....	6
---	---

Notes to financial statements .....	7 - 21
-------------------------------------	--------

<b>Required supplementary information</b> .....	22
---	----

Budgetary comparison schedule - general fund .....	23
--	----

<b>Additional information</b> .....	24
-------------------------------------	----

#### Long-term debt

Full term certificates of participation - series 2006.....	25
--	----

Promissory note payable .....	26
-------------------------------	----

Report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i> .....	27 - 28
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Iamonte T. Lator  
Bruce J. Dunn  
Jeffrey C. Stevens  
Linda I. Schirmer  
Steven W. Scott  
David M. Racek  
Robert E. Miller, Jr.  
Steven B. Robbins  
James E. Nyquist  
James R. Dedyne

Timothy H. Adams  
David B. Caldwell  
Edward L. Williams, III  
Timothy J. Orians  
Dennis D. Theis

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Walter P. Maner, Jr. (1921-2004)  
Floyd L. Costerisan  
Leon A. Ellis (1933-1988)

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Grattan Academy  
Belding, Michigan

September 6, 2006

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Grattan Academy (the Academy), as of and for the year ended June 30, 2006, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Grattan Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Grattan Academy as of June 30, 2006 and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2006, on our consideration of Grattan Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Board of Directors  
Grattan Academy  
Belding, Michigan

September 6, 2006

The management's discussion and analysis and budgetary comparison information on pages v through x and 23, are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Grattan Academy's basic financial statements. The additional information on pages 25 and 26 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Maner, Costerisan + Ellis, P.C.*

Certified Public Accountants

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Grattan Academy's (Academy) annual financial report presents our discussion and analysis of the public school Academy's financial performance during the fiscal year that ended on June 30, 2006. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

### Financial Highlights

- The Academy had an increase in the fund balance in the general fund of \$94,476 compared to a budgeted figure of \$56,625. This gives the Academy a general fund balance of \$103,001.
- The Academy refinanced its land contract and bank note with the issuance of \$3,800,000 of full term certificates of participation due over 30 years. Total long-term debt retired and refinanced was \$2,942,858.
- The Academy invested \$23,071 in capital assets during the year.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Academy:

- The first two statements are academy-wide *financial statements* that provide both short-term and long-term information about the Academy's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the Academy, reporting the Academy's operations in more detail than the academy-wide statements.
- The *governmental funds* statements tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the Academy's budget for the year. Figure A-1 shows how the various parts of the annual report are arranged and related to one another.

**Figure A-1**  
**Organization of Grattan Academy's Financial Report**

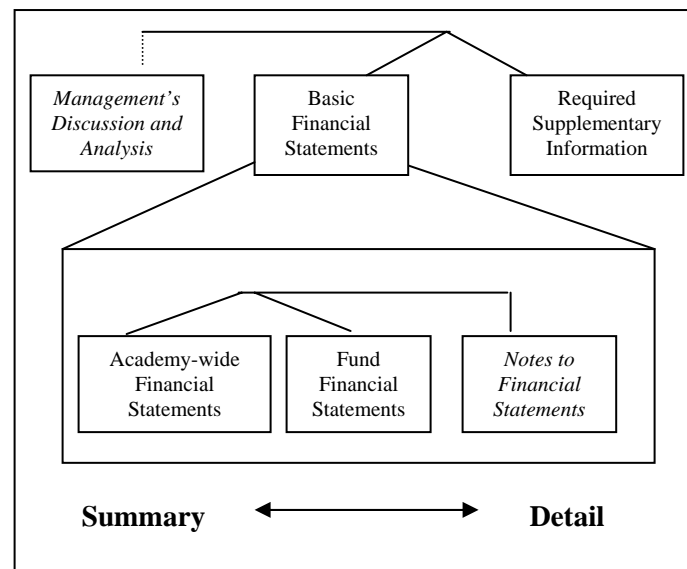


Figure A-2 summarizes the major features of the Academy's financial statements, including the portion of the Academy's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

**Figure A-2 Major Features of the Academy-Wide and Fund Financial Statements**

	Academy-wide statements	Governmental funds	Fiduciary funds
Scope	Entire academy (except fiduciary funds)	All activities of the academy that are not fiduciary	Instances in which the academy administers resources on behalf of someone else, such as student activities monies
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	Statement of fiduciary assets and liabilities
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, the academy's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

### **Academy-wide statements**

The academy-wide statements report information about the Academy as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Academy's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two academy-wide statements report the Academy's net assets and how they have changed. Net assets – the difference between the Academy's assets and liabilities, are one way to measure the Academy's financial health or position.

- Over time, increases or decreases in the Academy's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the Academy, you need to consider additional non-financial factors such as changes in the Academy's enrollment, the condition of school buildings and other facilities, and the Academy's ability to be competitive with other public school academies and area school districts.

Governmental activities - The Academy's basic services are included here, such as regular and special education and administration. State foundation aid finances most of these activities.

### **Fund financial statements**

The fund financial statements provide more detailed information about the Academy's funds, focusing on its more significant or "major" funds - not the Academy as a whole. Funds are accounting devices the Academy uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by State law and by debt agreements.
- The Academy establishes other funds to control and manage money for particular purposes (like repaying its long-term debts).

All of the Academy's basic services are included in governmental funds which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. Because this information does not encompass the additional long-term focus of the Academy-wide statements, we provide additional information with the governmental funds statement that explains the relationship (or differences) between them.

### **Financial analysis of the Academy as a whole**

Net assets (deficit) - the Academy's combined net assets (deficit) of \$(263,757) increased by \$216,424 during the year. See Figures A-3 and A-4.

The total revenues decreased by 7% to \$1,557,819. Total general revenues increased by 6% in 2006. The Academy had a \$250,000 private contribution in 2005. State aid foundation allowance included in revenue from state sources accounts for 90% of the Academy's revenue.

The total cost of instruction increased by 1% to \$711,913. Total support service increased by 34% to \$666,152 primarily due to additional costs incurred for pupil services, general and school administration, and building improvements.

**Figure A-3**  
**Grattan Academy's Net Assets**

	2006	2005
Current assets	\$ 354,632	\$ 331,161
Capital assets, net	3,277,522	3,364,844
Other noncurrent assets	736,481	
Total assets	4,368,635	3,696,005
Current liabilities	378,598	414,393
Long-term liabilities	4,253,794	3,328,945
Total liabilities	4,632,392	3,743,338
Net assets (deficit):		
Invested in capital assets, net of related debt	(618,467)	(55,858)
Restricted for debt service	330,787	
Unrestricted	23,923	8,525
Total net assets (deficit)	\$ (263,757)	\$ (47,333)

**Figure A-4**  
**Changes in Grattan Academy's Net Assets**

	2006	2005
Revenues:		
Program revenues:		
Federal and state categorical grants	\$ 68,124	\$ 16,181
Charges for service	6,382	3,794
General revenues:		
State aid - unrestricted	1,407,175	1,352,328
Other local sources	76,138	48,190
Total general revenues	1,483,313	1,400,518
Special item - private contribution		250,000
Total revenues	1,557,819	1,670,493
Expenses:		
Instruction	711,913	706,793
Support services	666,152	497,670
Community services	15,922	13,974
Interest on long-term debt	269,863	279,063
Unallocated depreciation	110,393	107,163
Total expenses	1,774,243	1,604,663
Change in net assets (deficit)	\$ (216,424)	\$ 65,830



## Financial analysis of the Academy's funds

The Academy's general fund balance increased by \$94,476 to \$103,001. Principal and interest payments on long-term debt of \$87,956 and transfers to the debt service of \$51,165 were made from the general fund. The certificates of participation provided the general fund with \$100,000 for reimbursement of building improvement expenditures made prior to the issuance of the certificates.

## General fund budgetary highlights

Over the course of the year, the Academy revised the general fund annual operating budget when necessary. Changes were made in both the revenue and expenditure which reflected anticipated decreases in state aid and actual salary figures for staff.

While the Academy's final budget for the general fund anticipated revenues would exceed expenditures and other financing sources or uses by \$56,625, the actual results for the year showed revenues over expenditures of \$94,476.

Actual revenues were \$17,821 more than budgeted, due primarily to additional special education monies received from the ISD.

The actual expenditures were \$52,405 over budget, due primarily to additional pupil support services and building operation costs.

## Capital asset and debt administration

### *Capital assets*

As of the year ended June 30, 2006, the Academy had invested \$3,277,522 in capital assets net of accumulated depreciation as summarized in Figure A-5. This amount represents a net decrease of \$87,322 from the beginning of the year. Total depreciation expense for the year was \$110,393. More detailed information about capital assets can be found in Note 4 to the financial statements.

The Academy's capital assets are as follows:

<b>Figure A-5</b>				
<b>Grattan Academy's Capital Assets</b>				
	<b>2006</b>			<b>2005</b>
	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>	
Land	\$ 366,500	\$ -	\$ 366,500	\$ 366,500
Building and improvements	2,765,576	215,358	2,550,218	2,610,750
Land improvements	87,000	9,570	77,430	80,910
Furniture and fixtures	283,624	39,933	243,691	258,122
Office equipment	78,438	38,755	39,683	48,562
Total	<u>\$ 3,581,138</u>	<u>\$ 303,616</u>	<u>\$ 3,277,522</u>	<u>\$ 3,364,844</u>

### **Long-term debt**

The Academy borrowed \$3,800,000 using full term certificates of participation during the year to refinance their land contract and a bank note. More detailed information about long-term debt can be found in Note 6 to the financial statements.

### **Factors bearing on the Academy's future**

At the time these financial statements were prepared and audited, the Academy was aware of existing circumstances that could significantly affect its financial health in the future.

- The foundation allowance was increased \$210 (3.1%) to \$7,085 per pupil for the fiscal year 2007.
- The Academy has adopted a \$48,928 deficit budget for 2007.

### **Contacting the Academy's financial management**

This financial report is designed to provide our students, parents and creditors with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report or need additional information, contact the Academy's Management Company, Choice Schools Associates, LLC at P.O. Box 141493, Grand Rapids, Michigan, 49514, phone (616) 785-8440.

**GRATTAN ACADEMY**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2006**

	<u><b>Governmental activities</b></u>
<b>ASSETS</b>	
<b>CURRENT ASSETS:</b>	
Cash and cash equivalents	\$ 50,776
Due from other governmental units	299,143
Prepaid expense	4,713
<b>TOTAL CURRENT ASSETS</b>	<u>354,632</u>
<b>NONCURRENT ASSETS:</b>	
Investments - debt service	354,626
Investments - capital projects	100,584
Deferred charges, net of amortization	281,271
Capital assets	3,581,138
Less accumulated depreciation	<u>(303,616)</u>
<b>TOTAL NONCURRENT ASSETS</b>	<u>4,014,003</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 4,368,635</u></u>
<b>LIABILITIES AND NET ASSETS (DEFICIT)</b>	
<b>CURRENT LIABILITIES:</b>	
Accounts payable	\$ 100,585
Accrued interest	102,917
Accrued salaries and related items	109,883
Note payable	41,163
Current portion of obligation under capital lease	2,671
Current portion of long-term obligations	<u>21,379</u>
<b>TOTAL CURRENT LIABILITIES</b>	<u>378,598</u>
<b>NONCURRENT LIABILITIES:</b>	
Obligation under capital lease	8,947
Long-term obligations	<u>4,244,847</u>
<b>TOTAL NONCURRENT LIABILITIES</b>	<u>4,253,794</u>
<b>TOTAL LIABILITIES</b>	<u>4,632,392</u>
<b>NET ASSETS (DEFICIT):</b>	
Invested in capital assets, net of related debt	(618,467)
Restricted for debt service	330,787
Unrestricted	<u>23,923</u>
<b>TOTAL NET ASSETS (DEFICIT)</b>	<u>(263,757)</u>
<b>TOTAL LIABILITIES AND NET ASSETS (DEFICIT)</b>	<u><u>\$ 4,368,635</u></u>

See notes to financial statements.

**GRATTAN ACADEMY  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2006**

Functions/programs	Expenses	Program revenues		Governmental activities
		Charges for services	Operating grants	Net (expense) revenue and changes in net assets
Governmental activities:				
Instruction	\$ 711,913	\$	\$ 65,754	\$ (646,159)
Support services	666,152		2,370	(663,782)
Community services	15,922	6,382		(9,540)
Interest and fees	269,863			(269,863)
Unallocated depreciation	110,393			(110,393)
Total governmental activities	<u>\$ 1,774,243</u>	<u>\$ 6,382</u>	<u>\$ 68,124</u>	<u>(1,699,737)</u>
General revenues:				
State sources				1,407,175
Investment earnings				4,473
Local sources				38,727
ISD special education allocation				<u>32,938</u>
Total general revenues				<u>1,483,313</u>
<b>CHANGE IN NET ASSETS</b>				(216,424)
<b>NET DEFICIT</b> , beginning of year				<u>(47,333)</u>
<b>NET DEFICIT</b> , end of year				<u>\$ (263,757)</u>

GRATTAN ACADEMY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006

	General fund	Debt service fund	Capital projects fund	Total governmental funds
ASSETS				
ASSETS:				
Cash and cash equivalents	\$ 50,776	\$	\$	\$ 50,776
Investments		354,626	100,584	455,210
Due from other governmental units	299,143			299,143
Prepaid expense	4,713			4,713
TOTAL ASSETS	\$ 354,632	\$ 354,626	\$ 100,584	\$ 809,842
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 100,585	\$	\$	\$ 100,585
Accrued salaries and related items	109,883			109,883
Note payable	41,163			41,163
TOTAL LIABILITIES	251,631			251,631
FUND BALANCES:				
Reserved for debt service	\$ 79,078	\$ 354,626	\$	\$ 433,704
Reserved for capital projects			100,584	100,584
Reserved for subsequent expenditures	48,928			48,928
Unreserved, undesignated	(25,005)			(25,005)
TOTAL FUND BALANCES	103,001	354,626	100,584	558,211
TOTAL LIABILITIES AND FUND BALANCES	\$ 354,632	\$ 354,626	\$ 100,584	\$ 809,842
Total governmental fund balance				\$ 558,211
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets used in governmental activities are not financial resources and are not reported in the funds				
The cost of the capital assets is		\$ 3,581,138		
Accumulated depreciation is		(303,616)		3,277,522
Unamortized deferred charges - debt issuance costs				281,271
Long-term liabilities are not due and payable in the current period and are not reported in the funds:				
Obligation under capital lease				(11,618)
Certificates of participation				(3,800,000)
Promissory note				(466,226)
Accrued interest is not included as a liability in government funds, it is recorded when paid				(102,917)
Net deficit of governmental activities				\$ (263,757)

GRATTAN ACADEMY  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2006

	General fund	Debt service fund	Capital projects fund	Total governmental funds
<b>REVENUES:</b>				
Local sources:				
Interest	\$	\$	\$	\$
Other	45,109	4,473		4,473
				45,109
Total local sources	45,109	4,473		49,582
State sources	1,441,032			1,441,032
Federal sources	34,267			34,267
Incoming transfers	32,938			32,938
Total revenues	1,553,346	4,473		1,557,819
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Basic programs	683,834			683,834
Added needs	30,770			30,770
Total instruction	714,604			714,604
Support services:				
Pupil	56,071			56,071
Instructional staff	13,509			13,509
General administration	186,248			186,248
School administration	204,436			204,436
Business	27,846			27,846
Operation and maintenance	175,553			175,553
Central	25,460			25,460
Total support services	689,123			689,123
<b>EXPENDITURES (Concluded):</b>				
Current (Concluded):				
Community service	\$	15,922	\$	\$
Outgoing transfers and other transactions		100		15,922
Debt service:				100
Principal retirement	33,353	2,906,814		2,940,167
Interest and fiscal charges	54,603	117,738		172,341
Issuance cost on the certificates of participation		290,970		290,970
Total expenditures	1,507,705	3,315,522		4,823,227
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	45,641	(3,311,049)		(3,265,408)
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfers in	100,000	51,165	100,584	251,749
Operating transfers out	(51,165)	(200,584)		(251,749)
Proceeds from issuance of certificates of participation		3,800,000		3,800,000
Other certificate proceeds		15,094		15,094
Total other financing sources	48,835	3,665,675	100,584	3,815,094
<b>NET CHANGE IN FUND BALANCES</b>	94,476	354,626	100,584	549,686
<b>FUND BALANCES:</b>				
Beginning of year	8,525			8,525
End of year	\$	\$	\$	\$
	103,001	354,626	100,584	558,211

**GRATTAN ACADEMY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2006**

<b>Net change in fund balances total governmental funds</b>	<b>\$ 549,686</b>
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Amounts reported for governmental activities in the statement of activities are different because:  
 Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	(110,393)
Capital outlay	23,071

Accrued interest on certificates of participation is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued interest payable, end of the year	(102,917)
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Repayments of principal on long-term debts are expenditures in the governmental funds, but not in the statement of activities (where they are reductions of liabilities).

Proceeds from certificates of participation	(3,800,000)
Issuance costs on certificates of participation	290,970
Amortization on issuance costs	(9,699)
Principal repayment - capital lease	2,691
Principal repayment - land contract	2,678,772
Principal repayment - promissory note	19,839
Principal repayment - bank note	241,556

<b>Change in net assets of governmental activities</b>	<b>\$ (216,424)</b>
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**GRATTAN ACADEMY**  
**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**  
**FIDUCIARY FUND**  
**JUNE 30, 2006**

	<u>Agency fund</u>
<b>ASSETS</b>	
Cash	\$ 4,376
<b>LIABILITIES</b>	
Due to student groups	\$ 114
Due to parent groups	4,262
<b>TOTAL LIABILITIES</b>	<u>\$ 4,376</u>



**GRATTAN ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the Grattan Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Academy's accounting policies are described below.

**A. Reporting Entity**

Grattan Academy (the "Academy") is a public school academy as part of the Michigan Public School System under Public Act No. 362 of 1993. Saginaw Valley State University is the authorizing governing body for the Academy and has contracted with the Academy to charter the public school academy through June 2011. The Academy's board of directors is approved by the authorizing body and is authorized to manage the Academy and the property and affairs of the Academy. The Academy receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the Academy is not included in any other governmental reporting entity as defined by accounting principles generally accepted in the United States of America. The Academy's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statements No. 14 and 39.

**B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Academy. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the Academy's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Academy's net assets are reported in three parts - invested in capital assets, net of related debt, restricted net assets and unrestricted net assets.

**GRATTAN ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Government-wide and Fund Financial Statements (Continued)**

The Academy first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the Academy's functions. The functions are also supported by general government revenues (State Foundation Aid, certain intergovernmental revenues, investment income and other revenue). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (State Foundation Aid, intermediate district sources, interest income and other revenues.)

The Academy does not allocate indirect costs.

This government-wide focus is more on the sustainability of the Academy as an entity and the change in the Academy's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds even though the latter are excluded from the government wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Governmental Funds** - Governmental funds are those funds through which most Academy functions typically are financed. The acquisition, use and balances of the Academy's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The Academy reports the following major governmental funds:

The *general fund* is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on certificates of participation.

The *capital projects fund* accounts for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

**GRATTAN ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Government-wide and Fund Financial Statements (Concluded)**

**Fiduciary funds** account for assets held by the Academy in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the Academy under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the Academy holds for others in an agency capacity (primarily student activities).

**C. Measurement Focus, Basis of Accounting and Basis of Presentation**

**Accrual Method**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

**Modified Accrual Method**

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

**GRATTAN ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Measurement Focus, Basis of Accounting and Basis of Presentation (Concluded)**

State and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Academy.

**State Revenue**

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to the Academy based on information supplied by the Academy. For the year ended June 30, 2006, the foundation allowance was based on pupil membership counts taken in February and September of 2005.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The State revenue is recognized during the foundation period and is funded through payments from October 2005 to August 2006. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The Academy also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue.

**D. Other Accounting Policies**

**1. Cash and equivalents**

The Academy reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Academy intends to hold the investment until maturity.

**GRATTAN ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Other Accounting Policies (Continued)**

1. Cash and equivalents (Concluded)

State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

All receivables are shown net of an allowance for uncollectibles.

3. Prepaid expenditures

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

4. Capital assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

**GRATTAN ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Other Accounting Policies (Continued)**

4. Capital assets

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Building and improvements	20 - 50 years
Land improvements	25 years
Furniture and other equipment	5 - 20 years

The Academy's capitalization policy is to capitalize individual amounts exceeding \$5,000.

5. Long-term obligation

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets.

In the fund financial statements, governmental fund types recognize debt premiums and discounts, as well as debt issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

6. Use of estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

7. Fund balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**GRATTAN ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. An annual appropriated budget is adopted for the general fund. Annual appropriations lapse at year end.

The Academy follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Chief Administrative Officer submits to the Board of Directors a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Prior to July 1, the budget is legally adopted by Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.
3. The Chief Administrative Officer is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board.
4. Formal budgetary integration is employed as a management control device during the year for the general fund.
5. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2006. The Academy does not consider these amendments to be significant.

**GRATTAN ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 - DEPOSITS AND RESTRICTED INVESTMENTS**

As of June 30, 2006, the Academy had the following investments:

<b>Investment Type</b>	<b>Fair value</b>	<b>Weighted average maturity (years)</b>	<b>Standard &amp; Poor's Rating</b>	<b>%</b>
First America Treasury Obligations Fund - class D	<u>\$ 455,210</u>	0.0027	AAAm	<u>100.00%</u>
Portfolio weighted average maturity		<u>0.0027</u>		

One day maturity equals 0.0027, one year equals 1.00

The Academy invests certain excess funds in external pooled investment funds which included treasury obligations. The treasury obligation reports as of June 30, 2006, the fair value of the Academy's investments is the same as the value of the pool shares.

These investments are restricted under the terms of the certificates of participation debt agreements primarily for debt service, capital projects and maintenance and repair of the related facilities.

**Interest rate risk.** The Academy will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Academy's cash requirements.

**Credit risk.** State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2006, the Academy did not have investments in commercial paper and corporate bonds.

**Concentration of credit risk.** The Academy will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Academy's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.



**GRATTAN ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 - DEPOSITS AND RESTRICTED INVESTMENTS (Concluded)**

**Custodial credit risk - deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. As of June 30, 2006, \$15,242 of the Academy's bank balance of \$115,242 was exposed to custodial credit risk because it was uninsured and uncollateralized. The above amounts include interest bearing deposits. Fiduciary fund balances are not included in the above balances. As of June 30, 2006, none of the Fiduciary fund's bank balance of \$4,376 was exposed to custodial credit risk.

**Custodial credit risk - investments.** For an investment, this is the risk that, in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The Academy will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Academy will do business.

**Foreign currency risk.** The Academy is not authorized to invest in investments which have this type of risk.

**GRATTAN ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 - CAPITAL ASSETS**

A summary of changes in the Academy's capital assets follows:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 366,500	\$	\$	\$ 366,500
Capital assets, being depreciated:				
Building and improvements	2,742,505	23,071		2,765,576
Land improvements	87,000			87,000
Furniture and fixtures	283,624			283,624
Office equipment	78,438			78,438
Depreciable capital assets	3,191,567	23,071		3,214,638
Accumulated depreciation:				
Building and improvements	131,755	83,603		215,358
Land improvements	6,090	3,480		9,570
Furniture and fixtures	25,502	14,431		39,933
Office equipment	29,876	8,879		38,755
Total accumulated depreciation	193,223	110,393		303,616
Net depreciable capital assets	2,998,344	(87,322)		2,911,022
Net governmental capital assets	\$ 3,364,844	\$ (87,322)	\$	\$ 3,277,522

Depreciation for the fiscal year ended June 30, 2006 amounted to \$110,393. The Academy determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

**GRATTAN ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 - NOTES PAYABLE**

As of June 30, 2006, the Academy has \$41,163 outstanding from a state aid anticipation note dated August 20, 2005. The note, which has an interest rate of 6.26%, matures July 20, 2006. The note is secured by future state school aid payments.

Balance June 30, 2005	Additions	Payments	Balance June 30, 2006
\$ -	\$ 400,000	\$ 358,837	\$ 41,163

**NOTE 6 - LONG-TERM DEBT**

The following is a summary of long-term obligation transactions of the Academy for the year ended June 30, 2006:

	Land contract	Promissory note	Bank note	Certificate of participation	Capital lease	Total
Balance, July 1, 2005	\$ 2,678,772	\$ 486,065	\$ 241,556	\$	\$ 14,309	\$ 3,420,702
Additions				3,800,000		3,800,000
Repayments	2,678,772	19,839	241,556		2,691	2,942,858
Balance, June 30, 2006		466,226		3,800,000	11,618	4,277,844
Less current portion		21,379			2,671	24,050
Total due after one year	\$	\$ 444,847	\$	\$ 3,800,000	\$ 8,947	\$ 4,253,794

**GRATTAN ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 - LONG-TERM DEBT (Continued)**

Long-term debt currently outstanding is as follows:

2006 Series full term certificates of participation due in annual installments of \$45,000 to \$545,000 through February 1, 2036 with interest of 6.5%	\$ 3,800,000
Promissory note due in monthly installments of \$4,635 through September 2019, including interest at 7.5%. The loan was issued for the purchase of a school building.	466,226
Total certificates and notes payable	4,266,226
Less current portion	(21,379)
	<u>\$ 4,244,847</u>

The annual requirements to amortize the certificates of participation and notes payable outstanding as of June 30, 2006, including interest of \$5,491,872 are as follows:

Year ending June 30,	Principal	Interest	Total
2007	\$ 21,379	\$ 281,242	\$ 302,621
2008	23,038	279,582	302,620
2009	69,827	277,794	347,621
2010	76,754	272,941	349,695
2011	83,831	267,614	351,445
2012-2016	506,415	1,243,939	1,750,354
2017-2021	609,982	1,046,160	1,656,142
2022-2026	610,000	860,600	1,470,600
2027-2031	830,000	635,375	1,465,375
2032-2036	1,435,000	326,625	1,761,625
Total	<u>\$ 4,266,226</u>	<u>\$ 5,491,872</u>	<u>\$ 9,758,098</u>

**GRATTAN ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 - LONG-TERM DEBT (Concluded)**

An amount of \$354,626 is available in the debt service fund to service the certificates. The certificates may be paid off early beginning in 2016 at the discretion of the Academy at stated amounts based on the terms of the debt agreement.

Capital lease obligations at June 30, 2006 consist of the following:

A capital lease for equipment with monthly payments totaling \$283 including interest imputed at 7.0% maturing through June 2010	\$ 11,618
Less current portion	<u>(2,671)</u>
	<u><u>\$ 8,947</u></u>

The future minimum lease payments required under the capital leases and the present value of the net minimum lease payments are as follows:

Year ending June 30,	Amount
2007	\$ 3,400
2008	3,400
2009	3,400
2010	<u>3,117</u>
Total minimum lease payments	13,317
Less: amounts representing interest	<u>(1,699)</u>
Capital lease obligations	<u><u>\$ 11,618</u></u>

The following is a summary of property held under capital lease as of June 30, 2006:

Equipment	\$ 14,309
Less accumulated depreciation	<u>3,100</u>
	<u><u>\$ 11,209</u></u>

**GRATTAN ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 - TRANSFERS**

Operating transfers between the governmental funds were as follows:

<u>Operating transfers out</u>		<u>Operating transfers in</u>	
General fund	\$ 51,165	Debt service fund	\$ 51,165
Debt service fund	200,584	General fund	100,000
		Capital projects fund	100,584
	<u>\$ 251,749</u>		<u>\$ 251,749</u>

Net operating transfers were made to the general fund with the 2006 certificates of participation proceeds for reimbursement for costs of building improvements previously paid for by the general fund. Transfers were made from the general fund to the debt service fund for interest payments on the certificates of participation. Transfers were made from the debt service fund to the capital projects fund to be used for capital asset purchases and for building maintenance and repair.

**NOTE 8 - OVERSIGHT FEES**

The Academy pays an administrative oversight fee of 3% of its state school aid discretionary and Proposal A obligation payments to Saginaw Valley State University Board of Trustees, as set forth by contract, to reimburse the University Board for the cost of execution of its oversight responsibilities. These oversight responsibilities include the monitoring of the Academy's compliance with the terms and conditions of the contract, and the review of its audited financial statements and periodic reports. During the year ended June 30, 2006, the Academy incurred expense of approximately \$42,000 for oversight fees.

**NOTE 9 - MANAGEMENT AGREEMENT**

The Academy had entered into a five year (through June 2008) management agreement with Choice Schools Associates, LLC (Choice Schools) for operation of the Academy. Under the terms of the management agreement, Choice Schools' compensation for operating the Academy is up to 12% of the unrestricted state revenue. The management fee was capped at \$133,286 by Choice Schools for 2006.

**NOTE 10 - PURCHASED SERVICES**

The Academy leases all employee services from Choice Schools. Salaries, retirement, social security, health insurance, and unemployment taxes are the responsibility of Choice Schools. The amount payable to Choice Schools at June 30, 2006 was approximately \$68,000.

**GRATTAN ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 11 - RISK MANAGEMENT**

The Academy is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. To minimize the risk, the Academy carries commercial insurance.

**NOTE 12 - SUBSEQUENT EVENT**

The Academy borrowed \$480,000 on July 24, 2006 with a state aid anticipation note with interest at 5.25%.

## **REQUIRED SUPPLEMENTARY INFORMATION**



**GRATTAN ACADEMY**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
**YEAR ENDED JUNE 30, 2006**

	Original budget	Final budget	Actual	Variance with final budget positive (negative)
<b>REVENUES:</b>				
Local	\$ 23,700	\$ 71,693	\$ 45,109	\$ (26,584)
State sources	1,774,913	1,429,834	1,441,032	11,198
Federal sources	29,672	31,597	34,267	2,670
Incoming transfers		2,400	32,938	30,538
Total revenues	1,828,285	1,535,524	1,553,346	17,822
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Basic programs	754,991	671,351	683,834	(12,483)
Added needs	28,817	30,118	30,770	(652)
Total instruction	783,808	701,469	714,604	(13,135)
Support services:				
Pupil	40,734	42,000	56,071	(14,071)
Instructional staff	12,400	12,150	13,509	(1,359)
General administration	271,550	186,208	186,248	(40)
School administration	215,487	196,005	204,436	(8,431)
Business	27,775	28,774	27,846	928
Operation and maintenance	138,772	160,250	175,553	(15,303)
Central	12,000	24,000	25,460	(1,460)
Total support services	718,718	649,387	689,123	(39,736)
<b>EXPENDITURES (Concluded):</b>				
Current:				
Community services	\$ 12,320	\$ 14,750	\$ 15,922	\$ (1,172)
Outgoing transfers and other transactions			100	(100)
Debt service:				
Principal retirement	347,237	32,503	33,353	(850)
Interest and fiscal charges	3,541	57,190	54,603	2,587
Total expenditures	1,865,624	1,455,299	1,507,705	(52,406)
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	(37,339)	80,225	45,641	(34,584)
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfers in		100,000	100,000	
Operating transfers out		(123,600)	(51,165)	72,435
Total other financing sources		(23,600)	48,835	72,435
<b>NET CHANGE IN FUND BALANCES</b>	<u>\$ (37,339)</u>	<u>\$ 56,625</u>	94,476	<u>\$ 37,851</u>
<b>FUND BALANCES:</b>				
Beginning of year			8,525	
End of year			\$ 103,001	

## **ADDITIONAL INFORMATION**

**GRATTAN ACADEMY  
FULL TERM CERTIFICATE OF PARTICIPATION - SERIES 2006  
YEAR ENDED JUNE 30, 2006**

\$3,800,000 Certificates issued February 17, 2006

Principal due February 1	Interest due		Debt requirement for fiscal year	
	August 1	February 1	June 30,	Amount
\$	\$ 123,500	\$ 123,500	2007	\$ 247,000
	123,500	123,500	2008	247,000
45,000	123,500	123,500	2009	292,000
50,000	122,037	122,038	2010	294,075
55,000	120,412	120,413	2011	295,825
55,000	118,625	118,625	2012	292,250
60,000	116,837	116,838	2013	293,675
65,000	114,887	114,888	2014	294,775
70,000	112,775	112,775	2015	295,550
75,000	110,500	110,500	2016	296,000
80,000	108,062	108,063	2017	296,125
85,000	105,462	105,463	2018	295,925
90,000	102,700	102,700	2019	295,400
95,000	99,775	99,775	2020	294,550
100,000	96,687	96,688	2021	293,375
105,000	93,437	93,438	2022	291,875
115,000	90,025	90,025	2023	295,050
120,000	86,287	86,288	2024	292,575
130,000	82,387	82,388	2025	294,775
140,000	78,162	78,163	2026	296,325
145,000	73,612	73,613	2027	292,225
155,000	68,900	68,900	2028	292,800
165,000	63,862	63,863	2029	292,725
175,000	58,500	58,500	2030	292,000
190,000	52,812	52,813	2031	295,625
200,000	46,637	46,638	2032	293,275
215,000	40,137	40,138	2033	295,275
230,000	33,150	33,150	2034	296,300
245,000	25,675	25,675	2035	296,350
545,000	17,712	17,713	2036	580,425
<u>\$ 3,800,000</u>	<u>\$ 2,610,554</u>	<u>\$ 2,610,571</u>		<u>\$ 9,021,125</u>

The above certificates bear an interest rate of 6.5%. The certificate proceeds were used to pay off a land contract and other long-term debt related to the purchase of the building, land and improvement thereto.

**GRATTAN ACADEMY  
PROMISSORY NOTE PAYABLE  
YEAR ENDED JUNE 30, 2006**

\$500,000 promissory note issued August 26, 2004

Principal due the first of each month	Interest due the first of each month	Debt requirement for fiscal year	
		June 30,	Amount
\$ 21,379	\$ 34,242	2007	\$ 55,621
23,038	32,582	2008	55,620
24,827	30,794	2009	55,621
26,754	28,866	2010	55,620
28,831	26,789	2011	55,620
31,070	24,551	2012	55,621
33,482	22,139	2013	55,621
36,081	19,540	2014	55,621
38,882	16,739	2015	55,621
41,900	13,720	2016	55,620
45,153	10,467	2017	55,620
48,659	6,962	2018	55,621
52,436	3,185	2019	55,621
13,734	171	2020	13,905
<u>\$ 466,226</u>	<u>\$ 270,747</u>		<u>\$ 736,973</u>

The above promissory note bears an interest rate of 7.5%. The note proceeds were used for the acquisition of real property.



Lamonte T. Lator  
Bruce J. Dunn  
Jeffrey C. Stevens  
Linda I. Schirmer  
Steven W. Scott  
David M. Raack  
Robert E. Miller, Jr.  
Steven B. Robbins  
James E. Nyquist  
James R. Dedyne

Timothy H. Adams  
David B. Caldwell  
Edward L. Williams, III  
Timothy J. Orians  
Dennis D. Theis

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Walter P. Maner, Jr. (1921-2004)  
Floyd L. Costerisan  
Leon A. Ellis (1933-1988)

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS***

Board of Directors  
Grattan Academy  
Belding, Michigan

September 6, 2006

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining information of Grattan Academy as of and for the year ended June 30, 2006, which collectively comprise Grattan Academy's basic financial statements and have issued our report thereon dated September 6, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Grattan Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Board of Directors  
Grattan Academy  
Belding, Michigan

September 6, 2006

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Grattan Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the Board of Directors, management, U.S. Department of Education and Michigan Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

*Maner, Costerisan + Ellis, P.C.*

Certified Public Accountants



Lamonte T. Lator  
Bruce J. Dunn  
Jeffrey C. Stevens  
Linda I. Schirmer  
Steven W. Scott  
David M. Racek  
Robert E. Miller, Jr.  
Steven B. Robbins  
James E. Nyquist  
James R. Dedyne

Timothy H. Adams  
David B. Caldwell  
Edward L. Williams, III  
Timothy J. Orians  
Dennis D. Theis

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Walter P. Maner, Jr. (1921-2004)  
Floyd L. Costerisan  
Leon A. Ellis (1933-1988)

September 6, 2006

To the Board of Directors  
Grattan Academy  
Belding, Michigan

In planning and performing our audit of the financial statements of Grattan Academy for the year ended June 30, 2006, we considered the Academy's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

The following comments address issues that will affect the Academy in the future. This letter does not affect our report dated September 6, 2006, on the financial statements of Grattan Academy.

Budget Enforcement by the Michigan Department of Education

The Michigan Department of Education is changing their enforcement and monitoring of budget violations. They are currently focusing on total expenditures violations that exceed 1% of the total expenditures budget and total other financing uses that exceed 1% of the total other financing uses budget. The Department of Education will be issuing letters to school board presidents, the chief administrative officers and the chief business official when they identify these types of violations.

Currently identified violations of the Act include, but are not limited to:

- Incurring expenditures in excess of the appropriation approved by the school board (Overspending your budget by line item).
- Ending the fiscal year with a deficit (negative fund balance).
- Adopting a budget that, when implemented, would put the Academy in a deficit.

The Department is also currently reviewing their interpretation of Section 17(2). This would be a situation where a Academy's actual revenues were less than budgeted revenues and, at the same time, depleted the Academy fund balance, beyond what was approved in total by the school board.

We recommend you continue to review your current budget amendments during the year. There will be situations where there continue to be budget violations as disclosed in footnote 2 subsection 5 of the financial statements. While there may be technical violations of the act we believe the Academy's current budget procedures are adequate.

#### Cash Management - Federal Awards

The Michigan Department of Education has recently been notified that it, along with all other states, has misinterpreted the advance provision of the Cash Management Improvement Act (CMIA). The United States Department of Education started monitoring and auditing CMIA compliance and is notifying sub-recipients that advances are limited to three days cash needs. In other words, funds must be spent by the Academy within 72 hours of being drawn down from the USDE GAPS system. Because of this new awareness, the department will no longer allow 30-day cash advances for ongoing programs during fiscal year 2006/2007. Thirty-day cash advances may be permitted for new one-time federal grant programs at the discretion of program management.

We recommend the Academy request funds on a reimbursement basis in order to ensure compliance with the revised cash management interpretation.



New Auditing Standards

Recently, 10 new auditing standards have been released and will become effective over the Academy's next two fiscal years. In reviewing the new standards, we do not believe, for the most part, they will have a significant impact on our overall audit approach. However, two of the new standards may directly impact the Academy beginning with the June 30, 2007 year-end.

One of the new standards revises the dating of the auditors' report. Under the old standards, the auditors' report was dated the last day of fieldwork. The new standards define the date as the date adequate audit evidence is obtained. Adequate audit evidence is now being interpreted as including the client's approval of draft financial statements. Although the dating of the report may seem trivial to non-auditors, it does have an impact on auditors' subsequent events work (June 30 through date of the auditors' report). The impact to the Academy could be if there was a long period of time needed to resolve certain open issues. This would extend the dating of the auditors' report and increase the amount of work we need to complete our subsequent events work.

Another standard effective for the June 30, 2007 year-end is related to our communications with the client. The new standard retained the definition of a "material weakness" and added two new categories of deficiencies "significant deficiency" and "control deficiency". Certain situations were included as examples of strong indicators of significant deficiencies and possibly material weaknesses. One of the situations is the client is unable to write financial statements, including the footnotes, in accordance with generally accepted accounting principles. Historically, we have prepared the financial statements and footnotes for the Academy. We will have to evaluate the Academy's ability to produce appropriate financial statements and footnotes and, accordingly, if any control deficiencies exists.

To the Board of Directors  
Grattan Academy  
Belding, Michigan

4

September 6, 2006

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Academy personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of Grattan Academy, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

*Maner, Costerisan + Ellis, P.C.*



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September 6, 2006

To the Board of Directors  
Grattan Academy  
Belding, Michigan

We have audited the financial statements of Grattan Academy for the year ended June 30, 2006, and have issued our report thereon dated September 6, 2006. Professional standards require that we provide you with the following information related to our audit.

1. Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of Grattan Academy. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether Grattan Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of law, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit.

2. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Grattan Academy are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2006. We noted no transactions entered into by Grattan Academy during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

3. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There are no significant estimates to report.

4. Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Academy's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Academy, either individually or in the aggregate, indicate matters that could have a significant effect on the Academy's financial reporting process. Management has approved all adjustments.

As a result of accounts payable being overstated by approximately \$29,000 at June 30, 2005, the beginning of year net assets and fund balance of the general fund were understated and 2006 revenues were overstated by the same amount. Management believes the effects of this adjustment is immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

5. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

6. Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

7. Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Academy’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

8. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the finance committee, Board of Directors, and management of Grattan Academy and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Maner, Costerisan + Ellis, P.C.*